

Message Text

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ORIGIN SS-30

INFO OCT-01 ISO-00 /031 R

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DRAFTED BY EB/ORF/FSE:WBWHITMANCJR

APPROVED BY EB/ORF - MR. KATZ

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S/S :REWOODS

NEA/IRN - MR. MORTON (INFO)

----- 129090

R 1,0055Z NOV 74

FM SECSTATE WASHDC

TO AMEMBASSY JIDDA

AMEMBASSY TEHRAN

AMEMBASSY ABU DHABI

AMEMBASSY KUWAIT

S E C R E T STATE 253352

STADIS//////////

EXDIS

E.O. 11652: GDS

TAGS: ENRG

SUBJECT: ARAMCO VIEWS ON ABU DHABI PRICE DECISION AND
SHAH'S SINGLE PRICE.

REF: JIDDA 6556

KUWAIT PASS DOHA

1. REPRESENTATIVES OF ARAMCO PARENTS (FOLMAR-TEXACO,
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CATTARULLA-EXXON, 'INDENMUTH-MOBIL,)CALLED ON DEPUTY
ASSISTANT SECRETARY KATZ NOVEMBER 13 TO REVIEW ABU DHABI

PRICE DECISION AND SHAH'S UNITARY PRICE PROPOSAL.

2. ABU DHABI CONFERENCE; ARAMCO REPRESENTATIVES DISTRIBUTED CHARTS (1,2,3) SHOWING PROJECTED FINANCIAL EFFECTS OF NEW PRICE FORMULA.

DURING DIS-

CUSSION ABOUT EFFECTS OF ABU DHABI INCREASE, FOLMAR NOTED THAT YAMANI HAD WARNED ARAMCO THAT QUOTE REPERCUSSIONS UNQUOTE IN CONSUMING COUNTRIES WOULD LEAD TO STILL FURTHER PUNITIVE ACTIONS. COMPANIES MUST THEREFORE SWALLOW INCREASE OR FACE NEW PENALTIES. FOLMAR ASSERTED THAT COST INCREASE OF ABOUT 50 CENTS WOULD RAISE COSTS ABOVE REVENUES AND THEREFORE MUST BE PASSED ON TO CONSUMERS.

3. SHAH'S SINGLE PRICE PROPOSAL: CATTARULLA OUTLINED COMPANY'S UNDERSTANDING OF SHAH'S PROPOSAL. MAIN FEATURES ARE (A) NO CONCEPT OF EQUITY, (B) PERCENTAGE OF OIL AVAILABLE FOR SALE TO COMPANIES FOR EXPORT TO BE DETERMINED BY OPEC DECISION AND (C) MARKET PRICE AND COMPANY DISCOUNT TO BE SET BY OPEC, ALONG WITH FREIGHT AND QUALITY DIFFERENTIALS FROM BASIC PRICE. CATTARULLA ASSERTED MANY KEY DETAILS REMAIN UNCLEAR OR UNRESOLVED. FOR EXAMPLE SOME PRODUCTION MIGHT BE SOLD TO COMPANIES AT DISCOUNT, WITH ADDITIONAL QUANTITIES AVAILABLE AT REDUCED OR ZERO DISCOUNT. SIZE OF DISCOUNT STILL UNCERTAIN -- IRANIANS SAY 50 CENTS WOULD BE THEIR PROPOSAL BUT ALLEGE THAT OTHER OPEC MEMBERS THINK THIS AMOUNT OVERLY GENEROUS. WOULD 50 CENTS MARGIN APPLY BEFORE OR AFTER ANY TAXES? ALSO UNCERTAIN IS FORMULA FOR ADJUSTING BOTH MARKET PRICE AND COMPANY MARGIN TO COMPENSATE FOR INFLATION. MAJOR QUESTION IN COMPANIES MIND IS WHETHER SHAH INTENDS TO BASE HIS SINGLE PRICE PROPOSAL ON PRE-ABU DHABI PRICE LEVELS OR WHETHER HE WOULD FIRST ACCEPT THIS QUOTE MFN UNQUOTE PRICE TRIGGER AND THEN BUILD HIS SINGLE PRICE FROM THAT BASE. TABLE 4 SUBMITTED BY CATTARULLA TO DEMONSTRATE BOTH POSSIBILITIES.

4. EFFECTS OF ABU DHABI DECISION AND SHAH'S PROPOSAL:

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FOLMAR NOTED THAT BOTH FORMULAE PRESENT GRAVE PROBLEMS FOR COMPANIES. IMPOSITION NARROW PROFIT MARGINS

ON MAJORS WOULD NOT ONLY CHOKE OFF BADLY NEEDED FUTURE EXPLORATION AND DEVELOPMENT (PROBABLY TO THE LIKING OF PRESENT OPEC MEMBERS), BUT REMOVE REMAINING MARKET AND COMPETITIVE FORCES. FOLMAR ASSERTED THAT ADOPTION SHAH'S PROPOSAL WOULD DEPRIVE AMERICAN COMPANIES OF U.S. TAX AND ROYALTY CREDITS. THIS WOULD PUT U.S.

MAJORS AT SERIOUS COMPETITIVE DISADVANTAGE, SINCE FRENCH AND DUTCH GIVE DIRECT TAX EXEMPTIONS ON THEIR COMPANIES' FOREIGN PROFITS. PRICE OF OIL TO CONSUMERS WOULD OF COURSE RISE.

5. ARAMCO-SAG TALKS: ACCORDING TO LINDENMUTH, ARAMCO HAS NOW SUBMITTED LETTER TO YAMANI TRACING HISTORY OF THEIR RECENT NEGOTIATIONS AND STATING COMPANY READY TO MOVE TO QUOTE NEW ARRANGEMENTS UNQUOTE PROVIDED SAG GRANTS GUARANTEED ACCESS TO OIL. ALTHOUGH YAMANI QUESTIONED SOME POINTS IN LETTER (INCLUDING PERCENT OF ARAMCO ACCESS RIGHTS), HE INDICATED WILLINGNESS TO CONTINUE NEGOTIATIONS. COMPANY HOPES TO MEET AGAIN WITH HIM BEFORE NOVEMBER 24, BUT IS STILL HIGHLY

SKEPTICAL OF HIS SINCERITY.

6. FULL MEMCON BEING POUCHED.

TABLE I

REPORTED ACTIONS OF
ABU DHABI, QATAR AND SAUDI ARABIA
OF NOVEMBER 9, 1974

USING ARABIAN LIGHT CRUDE OIL AS AN EXAMPLE, THE
MONETARY EFFECTS ARE AS FOLLOWS:

	JUNE ..	JULY 1 ...	OCTOBER 1 ..	NOV. 1
	1974 ..	1974	1974	1974

	11.651	11.651	11.651	11.251
POSTED PRICE ...				

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	1.456	1.689	1.942	2.250
ROYALTY				

	5.497	5.369	6.252	7.481
INCOME TAX				

	6.953	7.058	8.194	9.731
GOVT. TAKE				
(FROM EQUITY CRUDE OIL)				

	7.153	7.258	8.394	9.931
TAX PAID COST ..				
(EQUITY CRUDE)				

	11.045	11.045	10.835	10.666##
BUYBACK COST ...				
(TO ARAMCO US OWNERS)				

COMPOSITE COST.. 9.41 9.454 9.809 10.357
(TO US OWNERS)

GOVT. SELLING .. # .. # # 10.463 ##
PRICE TO
OTHERS

- NOT KNOWN.

- REPORTED IN THE NEW YORK TIMES ON NOVEMBER 11, 1974,
REPORTED IN THE NEW YORK TIMES ON NOVEMBER 11, 1974,
THAT SAUDI ARABIA WOULD SELL TO ARAMCO'S U.S.
OWNERS AT 94.8 PERCENT OF POSTED PRICE AND TO OTHER
BUYERS AT 93 PERCENT OF POSTED PRICE.

NOTE: COMPOSITE GOVERNMENT TAKE ON NOV. 1, 1974 INCLUDING
SALES OF GOVERNMENT CRUDE TO US OWNERS AND THIRD
PARTIES, INCOME TAXES AND ROYALTIES - DOLS 10.161.
TABLE 2

SAUDI ARAB REVENUES FROM ARAMCO CRUDE OIL

..... OCT. 1, 1974 NOV. 1, 1974

COMPOSITE POSTED PRICES # 11.671 11.271

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ROYALTY, 16.67 PERCENT 1.946 2.254

OPERATING COST ##20 .20

TAXABLE INCOME 9.525 8.817

TAX 65.75 PERCENT 6.263 7.495

ROYALTY 1.946 2.254

GOVERNMENT TAKE ON COMPANIES

EQUITY CRUDE OIL 8.209 9.749

GOVERNMENT ANNUAL INCOME AT 8.5 MMBD

FROM COMPANIES' EQUITY 10.19 BILLION 12.10 BIL.
40 PERCENT OF 8.5 MMBD -
GOVT TAKE

FROM COMPANIES' BUYBACK
LESS OPERATING EXPENSE 18.15 (1) 17.86 (2)

FROM OTHER SALES -

LESS OPERATING EXPENSE 1.65 BILLION 1.59 BIL.

TOTAL 29.99 BILLION 31.55 BIL.

ALL GRADES OF ARAMCO CRUDE OIL AVERAGED

COMPANIES CALCULATE 20 CENTS PER BARREL PRODUCTION
COST WHICH IS COMPROMISE BETWEEN 16 CENTS CURRENT COST
AND 23 CENTS FORESEEN FOR 1975.

(1) DOLS 10.835/BBL. LESS DOLS .20 EXPENSE

(2) DOLS 10.665/BBL. LESS DOLS .20 EXPENSE

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TABLE 3

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EVOLUTION OF TAX PAID COST AND GOVT. TAKE
ARABIAN CRUDES - COMPOSITE

..... EQUITY BBL. COMPOSITE
..... GOVERNMENT TAKE GOVERNMENT TAKE#

OCTOBER 1, 1973 DOLS 1.749 DOLS 1.982

OCTOBER 16, 1973 3.030 3.434

JANUARY 1, 1974 6.953 9.163

JULY 1, 1974 7.058 9.303

OCTOBER 1, 1974 8.194 9.659

NOVEMBER 1, 1974 9.731 10.161

INCLUDES REVENUES OBTAINED BY GOVERNMENT
THROUGH PARTICIPATION CRUDE SALES

TABLE 4

SINGLE PRICE SYSTEM

IRANIAN QUOTE PROPOSAL UNQUOTE

(BASIS - 34 DEGREE API ARABIAN LIGHT

QUOTE MARKER CRUDE UNQUOTE)

BASIS: PRE ABU DHABI POST ABU DHABI ##

GOVERNMENT TAKE ON 9.659 10.161

ALL EXPORTS

OPERATING COSTS200200

COMPANY MARGIN500500

- SINGLE PRICE 10.359 10.861

COMPANIES COST

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- .42 X 8.394

- .58 X 10.835

- 1.00 9.809 10.361

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ASSUMES 50 CENTS/BBL. MARGIN APPLIES TO ALL COMPANY
BARRELS - NOT CLEAR THAT THIS IS INTENT OF IRANIAN
QUOTE PROPOSAL UNQUOTE.

BASED ON ASSUMPTION THAT ABU DHABI ACTIONS HAVE
TRIGGERED MOST FAVORED NATIONS CLAUSE IN IRAN AND
PRESERVATION OF NEW GOVERNMENT TAKE IS STARTING
POINT FOR BUILDUP OF QUOTE SINGLE PRICE UNQUOTE. KISSINGER

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*** Current Handling Restrictions *** STADIS

*** Current Classification *** SECRET

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC PROGRAMS, PETROLEUM, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 14 NOV 1974
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: cunninfx
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974STATE253352
Document Source: CORE
Document Unique ID: 00
Drafter: WBWHITMANCJR
Enclosure: n/a
Executive Order: GS
Errors: n/a
Film Number: D740331-0472
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741183/aaaahgud.tel
Line Count: 312
Locator: TEXT ON MICROFILM, TEXT ON-LINE
Office: ORIGIN SS
Original Classification: SECRET
Original Handling Restrictions: STADIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators:
Previous Classification: SECRET
Previous Handling Restrictions: STADIS
Reference: JIDDA 6556
Review Action: RELEASED, APPROVED
Review Authority: cunninfx
Review Comment: n/a
Review Content Flags:
Review Date: 10 JUL 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <10 JUL 2002 by kelleyw0>; APPROVED <14 MAR 2003 by cunninfx>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> gwr 971112
Subject: ARAMCO VIEWS ON ABU DHABI PRICE DECISION AND SHAH'S SINGLE PRICE.
TAGS: ENRG, SA, ARAMCO
To: JIDDA
MULTIPLE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005